(c) There is no such proposal under consideration.

(d) A comprehensive central VAT cannot be introduced given the Constitutional powers of the Centre and the States in the field of indirect taxes. A group of State Finance Ministers are examining the suggestions made in regard to the introduction of VAT in India.

Expenditure incurred on subsidies in various sectors

244. SHRI B. K. HARIPRASAD: Will the Minister of FINANCE be pleased to state:

(a) what is the expenditure on subsidies in the various sectors in the past two years and what is their percentage share to the total;

(b) whether Government propose to phase out subsidies especially in power, petroleum/LPG, Public Distribution System and fertilizers; and

(c) whether continuation of subsidies contributes to growth in rate of inflation?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI M. V. CHANDRASHEKHAR MURTHY): (a) Various subsidies, as given in Central Budget, and their percentage share to the total expenditure is as given in the table below:—

Subsidies in Central Budget

	1993-94 (R.E.)	1994-95 (B.E.)
	(Rs. crore)	
A. Major Subsidies	10300	8300
1. Food	5200	4000
2. Indigenous Fertilizer	3800	3500
3. Imported Fertilizer	600	500
4. Export promotion and Market Development	700	300
B. Debt Relief to Farmers	500	341
C. Other Subsidies	1600	822
Total Subsidies	12400	9463
	(as per cent of total expenditure)	
A. Major Subsidies	7.2	5.5
1. Food	3.6	2.6
2. Indigenous Fertilizer	2.6	2.3
3. Imported Fetlizer	0.4	0.3
4. Export promotion and Market Development	0.5	0.2
B. Debt Relief to Farmers	0.3	0.2
C. Other Subsidies.	1.1	0.5
TOTAL Subsidies:	8.6	6.2
TOTAL Expenditure	143872	151699

(b) and (c) It is necessary to keep the subsidy bill within the limit of fiscal means in order to avoid the adverse effects of fiscal imbalance on inflation and also balance of payments. However, while containing the subsidies, it is the policy of the Government to safeguard the interest of the poor and needy.

Indirect capital inflow

245. SHRI B. K. HARIPRASAD: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that any significant increase in Forex reserves contributes to rise in rate of inflation;

(b) what are the steps taken to consolidate the Forex reserves;

(c) what percentage of total Forex reserves are actual direct investments (as against proposed/committed) and how much are indirect capital inflow; and

(d) what are the steps taken to guard the economy against the indirect investment of foreign capital?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI M. V. CHANDRASHEKHAR MURTHY): (a) A large increase in foreign exchange reserves tends to increase reserve money and money supply and thus add to the potential for inflation. While the growth in foreign exchange reserves has been large this year, its impact on reserve money expansion has been neutralised, to some extent, by a decline in net Reserve Bank credit to Government such that the growth in reserve money has been lower at 14.5 percent during this year up to February 3, 1995 against a growth of 18.3 percent in the corresponding period of last year.

(b) The recent steps to contain the impact of rising foreign exchange reserevs on monetary expansion includes;

(i) the agreement between the RBI and the Government to phase out automatic monetization of budget deficit;

(ii) open market sales of Government securities by the RBI;

(iii) the raising of cash reserve ratio (CRR) from 14 percent to 15 percent;

(iv) abolition of FCNRA deposit scheme;

(v) imposition/raising of CRR requirements on FCNR(B) and NR(NR) RD schemes; and

(vi) Euroissue guidelines requiring repatriation of GDR proceeds only when actually needed.

(c) Stock of reserves at any point of time is the result of transactions of both current and capital nature over the years. The inflows in the form of foreign investments, direct and portfolio, during 1991-92 to 1994-95 are as follows:

Inflows under Foreign Investment

(US $ million)

	1991-92	1992-93	1993-94	1994-95 (Apr. Jan
A. Direct Investment	150	341	620	857
B. Portfolio Investment of which:	8	92	3493	3211
FIIs	..	1	1665	1264
GDRs	..	86	1463	1727
Offshore funds % others		5	365	220